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REAL ESTATE

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Under construction?

Yes, maybe and no: Downtown mega developments face tentative buyers and cautious lenders

By John Handley
Tribune staff reporter

A hundred things can go wrong with a big project," warned real estate development adviser Steve Friedman.

But the possibility of disaster is not stopping Chicago's aggressive real estate entrepreneurs, who continue to practice what Daniel Burnham preached long ago: "Make no small plans."

Despite negative economic news, many developers are forging ahead with mega developments that they hope will shape the downtown landscape of the future.

But signs point to at least a partial evaporation of the euphoria that has propelled the downtown real estate boom — a drop in residential sales, the effects of Sept. 11 terrorist attacks, and more cautious lenders.

Will these negative forces delay major new developments? What can be expected to come out of the ground soon?

The scorecard is mixed. Some projects have languished for years, others seem about to be launched and still others already are up and running.

"A big city is defined by its biggest projects. That's what people notice," said Christopher Hill, former commissioner of the city's Department of Planning and Development and now senior vice president and director at Grubb & Ellis' Chicago office.

Chicago always has been linked with its architecture. But now it's harder and harder to get approval of big projects and it's taking longer and longer to build them," Hill added.

"If projects have been delayed, it is not because of a lack of entrepreneurship by developers," said real estate analyst Tracy Cross. "Rather, projects will be delayed until lenders feel more secure."

The caution of lenders has been affected by a steep drop-off in sales of new-construction housing in the city. According to Cross, sales of new homes in Chicago last year plunged almost 21 percent from 2000. The Cross survey tracks sales of new-construction projects of 10 units or more. The city's central core accounts for 85 percent of those sales, he says.

The future of major real estate projects in Chicago could be affected by a continued dip in new-home sales. Cross projects that those sales this year could be down 10 percent, resulting in a 30 drop from 2000 levels.

"This is the day of reckoning in the real estate market," said developer Rick Turner, president of Chicago-based Dynaprop Development Corp.

Turner predicts that downtown area residential sales will be slow in the next three to six months as the glut of units bought by investors

PLEASE SEE DOWNTOWN, PAGE 7B

DOWNTOWN: Developers face new conditions

CONTINUED FROM PAGE 1

is absorbed by home buyers. Previously, investors had turned to real estate in the face of a volatile stock market, and were buying 20 percent or more of the units in new projects.

Now, they are trying to sell those units, competing with developers and other condo owners.

Linda Goodman, principal at Goodman Williams Group, a Chicago real estate consulting firm, pointed out that a large supply of residential units already was in the pipeline before Sept. 11. But, in the long term, she says, "The fundamentals are very strong for downtown. It is well positioned as the economy recovers."

Goodman noted that large projects take years to complete and require substantial upfront costs to start. "One problem with huge projects is getting all the different pieces to come out of the ground at the same time," said Friedman, president of Chicago-based S.B. Friedman Co.

But, undaunted, some developers aren't waiting. Among the major projects:

Hard Rock Hotel

Hard Rock Café International Inc. plans to convert the 38-story Carbide & Carbon Building, an Art Deco office building at 230 N. Michigan Ave. into a Hard Rock Hotel with 384 rooms. It is scheduled to open in summer 2003.

Demolition of the interior is under way, according to John McDonald, president of Mark IV Realty Group Inc., the developer. "It will be a complete gut inside and historic restoration outside," said McDonald.

"Sept. 11 was a shock, but McCormick Place is still booking conventions and hotel rooms will be needed. But it's nice we're not opening now. We feel the hotel will open in a favorable market in 2003," McDo-

nald added.

Kinzie Station

Some developers already have reacted to the less favorable real estate climate.

CMC Heartland Partners announced in November that it would alter its plans at Kinzie Station, a residential complex just northwest of the Loop, by building its second tower for rental apartments rather than for-sale condominiums.

"This is not the climate to proceed with the original condo plan," said Edwin Jacobson, president and CEO of Heartland Partners.

He noted that a glut of high-rise condos is scheduled to come on the market. "It is clear there may be overbuilding in Chicago," Jacobson added.

Construction of the 33-story rental building with 267 apartments is scheduled to begin in April.

Lakeshore East

Downtown Chicago's only golf course was supposed to disappear last fall, but more planning has been required to turn the 26 acres of grass into a little city for 10,000 residents.

"We're meeting with the Park District and the Board of Education before submitting a plan to the community for comment," said Joel Carlins, president of Magellan Development Group Inc., developer of the massive project, called Lakeshore East.

The \$1.5 billion mixed-use development will take an estimated 12 to 15 years to build. Located just south of the Chicago River and west of Lake Shore Drive, it is planned for 4,900 residential units.

"It's better there's a recession now than later," said Carlins, who added that construction should start by late spring or early summer.

A check of the property last year by the U.S. Environmental Protection Agency (EPA), using a gamma ray meter, revealed two spots of radioactive contamination, said Larry Jensen, senior health physicist at the Chicago office of the EPA.

Jensen suggested that removal of the thorium in the ground could take as long as next fall, but "probably it will take less time. It doesn't appear to be a major problem."

The cleanup of environmen-

tal contamination will not affect the project's timetable, Carlins said.

When completed, Lakeshore East is to include 16 towers ranging from 22 to 62 stories, 2.4 million square feet of offices, up to 200,000 square feet of retail, an elementary school and one or two hotels.

"We may change the product mix, depending on the market," Carlins added.

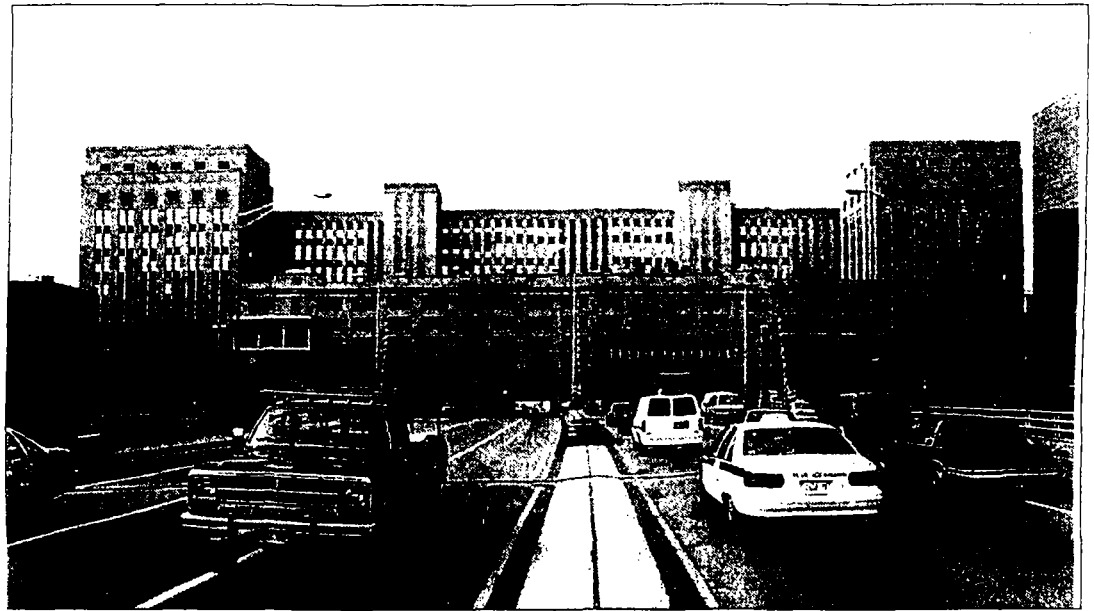
"There is no doubt that Lakeshore East will happen. It will be a home run, exactly what the downtown needs to increase the residential base," said Robert Wislow, chairman of Chicago-based U.S. Equities. "Once the school is built there, the townhouses will sell in six months."

Block 37

This huge black mark on Chicago's can-do spirit seems as far away from development as it did in 1989 when the city bought, cleared the block bounded by State, Washington, Randolph and Dearborn Streets.

Originally slated for a retail and office complex, the vacant 2.8 acres of prime Loop real estate was used for a variety of public events, including ice skating in winter and as a corral for some of the Cows on Parade in 1999. But, proposals for construction on the site failed to meet the city's high expectations and were rejected.

Now the Department of Planning and Development wants a multi-use development with stores on State Street, public space along Randolph and upper floors that could include a hotel, offices and condominiums or apartments.



Tribune file photo

The colossal Old Post Office that spans the Eisenhower Expressway has been on the block since the Postal Service closed it in 1998.

"A residential component seems to work in that area and could easily be part of the development," said Peter Scales, a spokesman for the department.

He added that the city is seeking a master developer for the mixed-use project. "We hope to choose one by mid-year and then hash out the details of the plan, which could include a Harrod's department store," he said.

"Block 37 has been difficult because it is such a big chunk of land, but it will be the pride of the city when it is completed in six to seven years," predicted Wislow.

"It's a challenge to make a statement at such a high-profile block," said former planning

commissioner Hill.

Central Station

Located on former railroad land west of Lake Shore Drive and south of Roosevelt Road, the 80-acre Central Station project is back on track "after a 60-day hiccup following Sept. 11," according to Gerald Fogelson, co-developer of Central Station Development Corp., the project's master developer.

Fogelson stressed that Central Station has not been delayed. "In January, we had the biggest traffic and sales in two years at Central Station."

The mixed-use development now has some 750 residents, including Mayor Richard Daley, but the population could rise to

3,000 in the next 15 months as buyers move into townhouses and condos that are now under construction.

When Central Station is scheduled to be completed in 8 to 10 years, it will have an estimated 15,000 population.

Fogelson said ground will be broken this year for more townhouses, lofts and another condo tower.

In the overall Chicago market, though, he commented that "plenty of places are not doing well, in part because speculators are out of the market and lenders are requiring more pre-sales and more equity."

In the past, developers usual-

PLEASE SEE **DOWNTOWN**, PAGE 8



DOWNTOWN:

CONTINUED FROM PAGE 15

ly invested 25 percent of their own equity in a project and were required by lenders to have 26 percent of the units sold before construction starts. In today's economy, though, lenders have been asking for 40 to 50 percent presales. However, the number of presales can be reduced if the developer puts up more equity.

Grand Pier Center

Conceived as a \$375 million, twin-tower development with a hotel, a 74-story condominium, a Dominick's supermarket, shops and a garage, Grand Pier Center was planned as another key component in the birth of a new Streeterville neighborhood east of Michigan Avenue and north of the Chicago River. The developer was Raymond Chin of Chicago-based R.M. Chin and Associates.

It got off to a slow start in 2000 because of environmental problems. Then, in June of last year, construction was halted when the contractor, AMEC, walked off the job after filing a lien to recover \$8.5 million it claimed the developer owed it. In July, LaSalle Bank moved to foreclose on the project, claiming the developer owed \$20.5 million in outstanding debt.

Today, the construction site at the corner of Illinois Street and Columbus Drive remains idle, with the concrete skeleton of the hotel's base up to the sixth level.

While Grand Pier remains on hold, the developer is confident it will go forward.

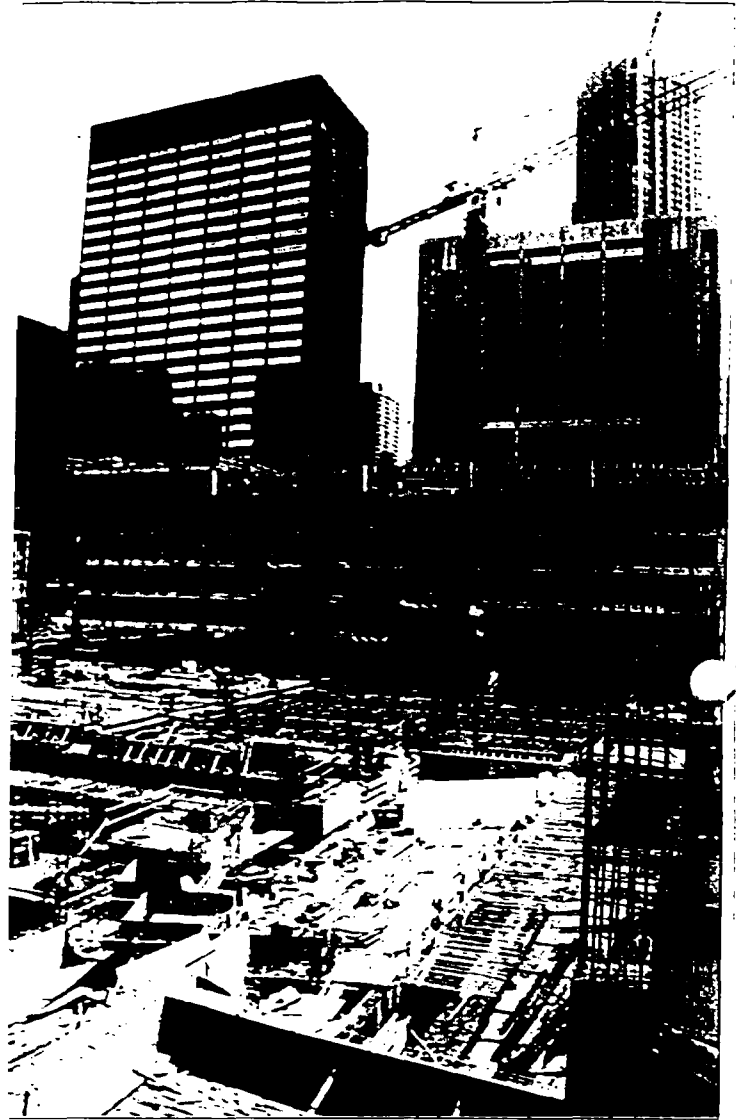
"The project is very much intact and it is expected to resume this year," said Carolyn Grisco, a public relations spokesman for R.M. Chin.

Some projects have been delayed because of the impact of the terrorist attacks. "Sept. 11 was a dagger," said Nicholas Helmer, chairman of IGL Real Estate, based in Oak Brook. His firm had been scheduled to conduct sales for the condo tower at Grand Pier.

Hill commented that "the value of the site is real, but the project may have to be reconfigured."

Old Post Office

The 2.6 million-square-foot colossus that spans the Eisenhower Expressway just west of the Chicago River has been on the block since the owner, the Postal Service, closed it in 1968.



The site of Grand Pier Center remains idle, with the concrete skeleton of the hotel's base up to the sixth level.

One of the developers who originally expressed interest in rehabbing the structure, built between 1921 and 1933, for new uses was Michael Lerner, president of Chicago-based MCZ Development, which has a track record of large residential conversions, including the 1 million-square-foot Randolph Place.

Four years ago Lerner suggested that the post office could be a mix of residential, retail, warehouse and distribution uses. He noted that the conversion would be challenging.

Lerner could not be reached for comment about the current prospects for the postal project.

"The Old Post Office is a magnificent structure. Its redevelopment will get swept up in the next surge of the economy," predicted Wislow.

However, the planning department's Hill pointed out that converting the unique struc-

ture for residential does not appear to be an option because "the exterior of the former government building must remain as is. You can't put balconies on the outside or open up the size of the windows."

Wards tower

The former Montgomery Ward & Co. headquarters building at Chicago Avenue and the Chicago River is now owned by Centrum Properties Inc. The 26-story office tower is located in an area undergoing residential development.

Before Sept. 11, Centrum had speculated that the tower could be converted into as many as 200 residential units on the top floors of the building.

"Centrum is working on redevelopment plans for the Wards tower and hopes to unveil them in the next several months," said John McLinden, a senior vice president with the firm.

Tribune photo by John Handley